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SIPDIS

TREASURY FOR OASIA: CHRIS KUSHLIS AND BILL BLOCK

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TAGS: [EFIN](#) [PGOV](#) [KCOR](#) [SNAR](#) [GT](#)

SUBJECT: DESPISED TAX AND CUSTOMS CHIEF ABADIO QUILTS; IS
REPLACED BY WILLIE ZAPATA, WHO THOUGHT HE WAS BECOMING
SUPERINTENDENT OF BANKS

REF: A. 2003 GUATEMALA 772

[1B](#). 2003 GUATEMALA 2593

Classified By: EconCouns Steven S. Olson for reason 1.5 (d).

Summary

[11.](#) (C) President Berger appointed respected banker and former Central Bank President Willy Zapata to be the new Superintendent of Tributary Administration on January 28. His exceptionally unpopular predecessor, Marco Tulio Abadio, quit as rumors circulated that the government sought his removal. President Berger publicly called for civil society's views on Abadio's performance, knowing what the response would be, in a deft move to expedite Abadio's departure. Abadio is widely considered the implementer of the former government's campaign of "fiscal terrorism" against its private sector opponents, though he may also have had his own agenda. Zapata's appointment was a surprise. Only days earlier, he had called on EconCouns to report that he would become an advisor to Superintendent of Banks Douglas Borja until Borja could "retire" gracefully. Zapata would then take over. Borja had performed well on most occasions but was thought to have covered for cronies of former President Portillo, a childhood friend who appointed him. The problem was such that Borja's own money laundering investigators did not share all of what they knew with him. Zapata contrasted Borja's attitude with that of Central Bank president Lizardo Sosa, who did not have Berger's confidence but was insisting on riding out the remainder of his recently renewed term. End Summary.

Zapata New Head of Taxes and Customs (SAT)

[12.](#) (U) President Berger swore in respected economist and former central bank president Willy Zapata as new head of the Superintendence of Tax Administration (SAT) on January 28. The SAT is the Guatemalan equivalent of the IRS and Customs Service combined. The previous SAT superintendent, Marco Tulio Abadio, was held in contempt by the private sector and much of civil society, which saw Abadio as corrupt and as the implementer of the FRG government's policy of "fiscal terrorism" against its critics. Abadio had resigned on January 23 as rumors circulated that he would be dismissed imminently. True to character, Abadio fired a broadside against the press, particularly "El Periodico" president Jose Ruben Zamora, whom he called a tax evader and drug user as well as a slanderer. He also lashed out at Berger for being manipulated by the press and using it to disparage him rather than calling him up and asking him to leave. He warned that if anybody dared to push him any further, he would go public with the information he had collected on the "tax evaders" who backed the new government.

Unsubtle Abadio Deftly Forced Out

[13.](#) (C) Abadio had a longstanding feud with the press, especially "El Periodico" and Zamora, who was particularly persistent and outspoken in condemning "fiscal terrorism." Abadio, not known for his subtlety, responded by practicing "fiscal terrorism" (never-ending audits and threats of criminal tax evasion charges) on Zamora. Berger indeed used the press to put pressure on Abadio, but not, as Abadio implied, because he lacked the nerve to fire him. Abadio still had two more years in his term, and Berger's legal grounds to fire Abadio depended on relatively vague language suggesting the authority to dismiss at the very beginning of a new administration if the President lacked confidence in the SAT chief. The other route would have been to demonstrate malfeasance or nonfeasance, which offered the prospect of months of public mud wrestling over who was really to blame for missed tax targets: Abadio or a recalcitrant private sector that caused some of his taxes to be thrown out by the courts. Berger's public call for civil society to speak its mind was sure to generate a groundswell in support of the President's "lack of confidence" and belie Abadio's charges that Berger was acting solely to protect his tax evading cronies. Abadio (who is smart, if not subtle) evidently saw what was coming and cut his losses while he could.

Zapata Thought He Was Replacing Borja, Not Abadio

14. (C) Zapata did not expect to be the new head of the SAT. He had told Econ Counselor only days earlier of Berger's plan to name him an advisor to Superintendent of Banks Douglas Borja until enough time had passed for Borja to "retire" gracefully. Zapata, an insider in Berger's economic team who is close to economic policy coordinator Richard Aitkenhead and Minister of Finance Maria Antonieta de Bonilla, said that Borja's departure had already been negotiated and that he would be assuming the advisory role on Feb. 1. A retirement date for Borja had yet to be set, but it probably would be within a couple of months. Zapata would then take over as new Superintendent. Zapata said that Borja recognized that the new government wanted him out because of his connections with former president Portillo, who appointed him. Zapata said that Borja agreed to leave peacefully if the new administration would let him do so gracefully. Borja and Portillo are said to have grown up together in Zacapa.

15. (C) EconCouns spoke again with Zapata on February 29. Zapata said the change in plans and his move to the SAT were unexpected. The government had not thought that Abadio would move out as quickly and easily as he did, and it did not have other willing candidates readily available. Zapata admitted that taking on the SAT had given him pause, noting that the job would be "dangerous." He said he looked forward to repairing the damage done to the institution during Abadio's tenure, but there were "bigger problems" he wanted to discuss in more detail the following week. (Comment: "Bigger problems" was undoubtedly an allusion to the influence of organized crime in Customs.)

Borja Did Some Good, but Too Close to Portillo

16. (C) Zapata gave mixed reviews of the recent performance of the Superintendence of Banks (SIB) but expressed his confidence in the leadership of the SIB's financial intelligence unit (IVE). He said he would seek to improve their anti-money laundering capabilities. Zapata credited Borja with having done some good in his position, such as implementing new financial reform legislation and pursuing the criminal case against former banker and Portillo financier Francisco Alvarado McDonald. However, Borja's actions were suspect in other areas, such as allowing the failed state mortgage bank (CHN) to absorb failed private Banco del Nororiente (BANORO), permitting a cover-up of the illegal activities of a friend of Portillo who ran the bank (Reftel A). The friend, Bruno Straga, fled to his native Italy and allegedly sold a large Zacapa farm to Portillo for about \$250. Zapata mentioned examples of waste in the SIB's budget and sloppiness in handling sensitive banking information as areas where he would look to reform the SIB.

17. (S) Zapata was aware that Borja's connections with the former administration left his own IVE reluctant to pass along to him information regarding particularly sensitive cases linked to Portillo or Portillo's allies. Comment: The problem is real. IVE has been passing information to the Embassy for some time that it doesn't share with the Superintendent. Most recently, in a meeting the day before with EconOff, IVE officials passed along information regarding suspicious transactions by former VP Reyes using U.S. bank accounts (this information has been relayed through appropriate law enforcement channels). The information was provided with the request that the source not be revealed, even to others within the SIB. End Comment.

Lizardo Sosa Insists on Staying Put at the Central Bank

18. (C) Zapata contrasted Borja's willingness to step down with the defiant attitude of Central Bank President Lizardo Sosa, who vowed to stay on for the rest of his recently renewed term despite clear signals from the Berger Administration that he would not be included in executive branch consultations on policy. Zapata didn't think it would be too much of a problem for the Berger government: the Monetary Board controlled monetary policy, and the competent professional staff of the Central Bank, led by Vice President Mario Garcia Lara, would implement that Board's instructions whether or not Sosa chose to cooperate.

Comment

19. (C) The SAT was a mess, and Abadio had to go. Both AID and the World Bank stopped working with the organization under Abadio's tenure, and he methodically removed many of its better-trained staff and replaced them with people he personally recruited. He was widely considered the attack dog of confrontational former Vice President "Paco" Reyes, though former Finance Minister Weymann told EconCouns that Abadio had his own agenda (presumably of extortion) and was beyond anyone's control toward the end. We note that Abadio was an early enemy of the FRG administration as Controller General until half-way through its term, when he suddenly

shelved the "Panama Connection" case implicating Portillo, Reyes and others in offshore money laundering and was rewarded shortly after by being named to the more powerful SAT. He is thought to have assiduously collected dirt on everyone he can, and we expect he can be very dangerous when cornered.

18. (C) Zapata was a superb choice for the SIB, where his strategic vision and banking knowledge would have served him well. Those same skills will be useful at the SAT, but he will also need to be fearless and tough if he intends to get corruption and organized crime out of Customs. We know him more as a theorist than an operator, but longtime friends say he is actually quite tough and up to the task. The inability of the IVE to share information freely within the SIB or with the Public Ministry (Attorney General's office) has been a serious weakness in Guatemala's anti-money laundering efforts. Borja's replacement by Zapata is now by the wayside, but his replacement will still come about. Current odds seem to favor Edgar Barquin, Borja's principal deputy and a career SIB official who was instrumental in building the IVE. Barquin seems quite the opposite of Zapata, more an operator than a strategist, but he would still be an excellent choice.

HAMILTON